

**Statement of The Honorable Linda M. Combs
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Office of Management and Budget**

**Before the
Subcommittee on Government Management, Finance, and Accountability
Committee on Government Reform
United States House of Representatives
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Thank you, Chairman Platts, Congressman Towns, and Members of the Committee. I am pleased to be here today to discuss financial management issues at the Department of Homeland Security (DHS).

Please be assured that we share your thoughts on the need for the highest level of financial management practices and processes at DHS. Given the department's unique and vital purpose of protecting our homeland, it is essential that DHS take the necessary steps to improve its financial reporting, financial management, and internal control processes. Since the department was established, DHS has worked diligently to ensure that it establishes a strong foundation for superior financial management practices. While much remains to be done, we look forward to continuing to work with DHS and the Congress to continue these efforts.

One of the Office of Management and Budget's (OMB) top priorities under the President's Management Agenda (PMA) is to ensure that DHS maintains an aggressive schedule for improving financial performance. For instance, in the first year of its existence, when not yet required to obtain a financial statement audit, DHS contracted for an independent audit of its financial operations for FY 2003. While limited in scope to two financial statements, the fact that DHS completed audit activities so soon after its creation demonstrates a strong commitment to establishing important financial management fundamentals. This process of preparing for, and having the auditor report on, its financial operations also provided the department with early visibility into internal control vulnerabilities. I am pleased DHS has further included improved financial performance as a priority initiative within Secretary Chertoff's Second Stage Review.

In FY 2004, the financial audit scope for DHS was expanded to include all six financial statements. Additionally, as with the other Chief Financial Officer (CFO) Act and Accountability of Tax Dollars Act agencies, DHS was required to complete its audit in 45 days. This deadline was nearly three months faster than the prior year. While this accelerated timeframe was a challenge for all agencies, I am pleased to report that DHS issued its financial statements just two days past the deadline. This fiscal year, we look forward to seeing all major agencies, including DHS, meet the November 15 reporting

deadline. For FY 2004, in its second financial audit, DHS was able to complete a more comprehensive review of financial management activities. As a result, the independent auditor was able to identify and define material weaknesses and other deficiencies. Notably, the auditor was able to report one FY 2003 material weakness as resolved.

As a part of its efforts to strengthen financial controls, DHS has developed a strategic plan, entitled *Vision for DHS Financial Reporting*, that clearly defines near and long-term results leading to full compliance with all relevant financial standards and requirements by FY 2007. Further, a detailed and aggressive corrective action plan underlies this vision and serves as the department's roadmap for success. Through the PMA, the Administration will continue to hold DHS accountable for achieving the results outlined in this vision.

We agree with the Subcommittee that DHS should move swiftly to identify and correct material weaknesses. Since issuing its FY 2004 Performance and Accountability Report (PAR), DHS has been working closely with OMB to ensure that quarterly actions support more positive findings in the FY 2005 audit report. Discussions between OMB and DHS have addressed critical actions for all weaknesses, but close attention is being paid to weaknesses that can be resolved in the near term. Based on this prioritization, OMB and DHS believe that actions taken to date could lead to DHS reporting fewer material weaknesses in its FY 2005 audit report. One such weakness likely to be resolved is the financial management structure, which I understand has been noted by this Subcommittee as the most serious weakness. We will continue to use the PMA as a tool for holding DHS accountable for demonstrating progress and achieving results.

In any Federal department or agency, a key success factor for improving financial performance rests with the Office of the CFO. Having a CFO in place at all agencies is important to ensuring that steps are taken to comply with the CFO Act and other applicable statutes and regulations. Additionally, the agency's organizational structure must properly locate the CFO position so that the right amount of attention and resources can be devoted to financial management, reporting and accountability.

In the case of DHS, as a relatively new CFO Act agency, it is of primary importance for the role of the CFO to be strong to allow the department to successfully deliver on its mission and meet its goals. For that reason, I understand your concerns about the DHS Act requirements as related to the organizational structure and nomination process for the DHS CFO. You have my commitment to work closely with DHS and other appropriate officials to support and facilitate these efforts where I can.

We also share your concerns about DHS' ability to comply with the requirements on an audit opinion on internal control pursuant to P.L. 108-330. This fiscal year, DHS must issue a statement of assurance on internal control over financial reporting. In addition, DHS must obtain a separate audit opinion on internal control over financial

reporting in subsequent fiscal years. Pursuant to these requirements, the department has taken important first steps – such as establishing an internal control committee, developing an implementation guide and strategy, and working with OMB and the CFO Council to better align its efforts with the government-wide implementation guidance to Circular A-123. However, given the department’s unique complexities and issues, DHS must remain committed to fully preparing itself and taking the appropriate action necessary toward meeting these requirements.

It is imperative that DHS continue to strive for the highest quality financial management practices and develop the most effective internal control processes. Further, we expect DHS to identify high priority areas requiring attention in support of its strategy for effective internal controls in the future. OMB will continue to monitor the department’s progress and work to ensure DHS is meeting its internal control improvement goals. We look forward to continuing to work with the department, providing assistance and direction where necessary, so that DHS meets all statutory requirements.

Additionally, the CFO Council – an interagency group of CFOs and Deputy CFOs across the government – can serve to assist DHS in its efforts to improve financial performance and management. I look forward to working with DHS and the CFO Council to coordinate improvement efforts.

As you know, on December 21, 2004, OMB issued revisions to Circular A-123, *Management’s Responsibility for Internal Control*, to strengthen internal control at the major departments and agencies. These revisions require agencies to provide a new separate management assurance on the effectiveness of internal control over financial reporting and to follow a strengthened assessment process. Circular A-123 also contains a non-compliance clause such that if internal control corrective action targets are not met, then OMB may require a separate audit of internal control to better focus management’s corrective actions.

DHS, who assumed a crucial leadership role in this process to enhance OMB Circular A-123 and its related implementation guidance, should be commended for its assistance. The department was helpful in its role of sharing practices, progress, and lessons learned with staff at OMB and other CFO Act agencies.

To assist agencies in executing the requirements of Circular A-123, the CFO Council, in conjunction with OMB, has taken several steps over the recent months. First, the CFO Council has focused on preparing an Implementation Guide to assist the agencies in complying with the requirements of A-123. This Implementation Guide became final on July 22, 2005, and has been made available to your staff. Additionally, the CFO Council sponsored a “Circular A-123 Expo” on May 9, 2005, in conjunction with the Association of Government Accountants, to communicate implementation

direction and seek industry input based on similar Sarbanes-Oxley experiences. We have also conducted government-wide training sessions and outreach, as well as provided individual assistance to specific agencies as requested. We look forward to continuing to work with the agencies to assist them in the implementation of Circular A-123.

Improving overall financial management across the government remains an important objective of this Administration. I look forward to maintaining an ongoing dialogue with this Subcommittee on the specific efforts and progress DHS is making to meet its financial management and reporting goals and requirements.

Thank you, Mr. Chairman, for the opportunity to speak before you today. I am pleased to address any questions.